Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Del D. Borgsdorf

SUBJECT: **EARLY RETIREMENT
INCENTIVE PROGRAM**

DATE: May 28, 2004

We have received several requests to explore the use of incentives to encourage early retirements in the Federated City Employees Retirement System as a method that may prevent or reduce the number of potential employee layoffs or bumping that could result from position eliminations used to balance the budget. An analysis was conducted to evaluate whether or not to recommend implementation of an Early Retirement Incentive Program for employees in the Federated Retirement System.

BACKGROUND

As a result of the significant projected 2004–2005 General Fund shortfall and the potential impact of the Governor's proposed budget on the City, an evaluation of an Early Retirement Incentive Program for employees in the Federated City Employees Retirement System was conducted. The primary goal of an early retirement incentive program is to prevent and reduce the number of potential employee layoffs by creating vacancies and providing placement opportunities for employees whose positions may be permanently eliminated through the proposed budget.

Currently, City employees who are members of the Federated Retirement System are eligible for retirement at age 55 with at least five years of service, or with 30 years of service regardless of age. Retirement compensation is based on the following formula:

Retirement Benefit = Final Average Salary x 2 ½% x Years of Service (maximum 75%)

Early Retirement Incentive Program Options

Two Early Retirement Incentive Program options were evaluated for consideration. In either program studied, eligible employees would need to be at least 53 years of age and have at least 15 years of service.

Option 1 would include a retirement incentive package that:

BACKGROUND (Cont'd.)

- Credits a total of two years to either the member's age or years of service. After bringing the employee up to age 55, any portion of the two years that remains will be added to the member's years of service. An employee who is already 55 would receive two additional years of service up to a maximum of 30 years of service.

An Alternative Option 2 Program would be restricted only to certain classifications where layoffs are anticipated to occur as outlined in the proposed budget. This is not a common early retirement incentive program since most programs, similar to Option 1, apply to all employees who meet certain age and/or service requirements.

ANALYSIS

An analysis of the current age and years of service of employees in the Federated City Employees Retirement System, approximately 456 employees would be eligible for the Early Retirement Incentive Option 1 shows that:

Option 1 Incentive Category	Number of Eligible Employees
1. ≥ 15 years of service at age 53+	364
2. 28+ years of service	92
Total	**456**

Based on experiences with Early Retirement Incentive Programs offered in the past, it is reasonable to estimate that 50% of eligible employees would participate in an Early Retirement Incentive Program if it were offered. Therefore, the Option 1 Program could potentially generate at least 228 employee separations, up to the maximum of 456 employees leaving the City.

The actuary for the Federated Retirement Board, Gabriel, Roeder, Smith & Company, has evaluated impacts to the Retirement Fund if Option 1 was adopted. Two sets of fiscal impacts of this program were developed based on the date and asset values developed in the actuarial valuation of the system as of June 30, 2003.

Based on the actuarial report that was prepared, if only 25% of those eligible under the Option 1 Early Retirement Incentive Program retire, the cost to the City would be approximately $31,700,000 if paid in a lump sum or an increase in the City's contribution to the retirement system of 2.66% of payroll (approximately $7.6M per year). If 50% of those eligible under the Early Retirement Incentive Program retire, the increased cost to the City would be approximately $75,000,000, or an increase in the City's contribution rate of 5.06% (approximately $14M per year).

As part of the 2004-2005 Proposed Operating Budget, it was estimated that a total of 285 positions would be eliminated in the Tier 1 budget balancing strategy, of which 188 were filled. As of mid-April there were 450 vacancies. An early retirement incentive program would create additional vacancies, estimated to be approximately 228, bringing the total to 678 vacancies. As

ANALYSIS (Cont'd.)

part of the Early Retirement Incentive Program analysis, an assessment was made of the impact of these additional vacancies and the degree to which the vacancies would reduce the number of employee layoffs.

Several classifications were analyzed to determine the impact of recommended Tier 1 budget balancing strategies on filled and vacant positions. The number of current vacancies in each classification was compared with the proposed position reductions to determine if layoffs or bumping would occur. Additionally, these classifications were reviewed to determine the number of vacancies that could result if an Early Retirement Incentive Program was implemented.

An Early Retirement Incentive Program could have different impacts depending on the particular classification as demonstrated below.

1. An Early Retirement Incentive Program may help reduce layoffs in certain classifications by providing additional vacancies. However, it could also create more vacancies in a specific classification that are not needed to reduce or prevent layoffs:

	Tier 1 Reductions			Total Vacant	Net Vacant Status	Retirement Program Potential Participants (Max. exposure @ 100%)	Revised Vacant Status
Classification	Filled	Vacant	Total				
Analyst I/II	(5.0)	(1.0)	(6.0)	7.0	1.0	17.0	**18.0**
Librarian I/II	(4.0)	(4.0)	(8.0)	4.0	(4.0)	17.0	**13.0**
Maintenance Worker I/II	(6.0)	(1.0)	(7.0)	11.0	4.0	11.0	**15.0**
Office Specialist I/II	(8.0)	(2.0)	(10.0)	14.0	4.0	18.0	**22.0**

2. An Early Retirement Incentive Program may help minimize layoffs in certain classifications, but it may still not create enough vacancies in a specific classification to accommodate the recommended position reductions:

	Tier 1 Reductions			Total Vacant	Net Vacant Status	Retirement Program Potential Participants (Max. exposure @100%)	Revised Vacant Status
Classification	Filled	Vacant	Total				
Community Coordinator	(12.0)	(1.0)	(13.0)	1.0	(12.0)	0.0	**(12.0)**
Crime Prevention Specialist	(12.0)	(0.0)	(12.0)	0.0	(12.0)	0.0	**(12.0)**
Maintenance Asst.	(9.0)	(1.0)	(10.0)	1.0	(9.0)	1.0	**(8.0)**
Recreation Program Specialist	(10.0)	(0.0)	(10.0)	6.0	(4.0)	3.0	**(1.0)**

ANALYSIS (Cont'd)

3. While an Early Retirement Incentive Program would generate some vacancies that are needed to prevent layoffs, there are certain classifications that are not subject to filled position reductions. The program could create unnecessary vacancies:

Tier 1 Reductions				Total Vacant	Net Vacant Status	Retirement Program Potential Participants (Max. exposure @ 100%)	Revised Vacant Status
Classification	Filled	Vacant	Total				
Accounting Tech	(0.0)	(0.0)	(0.0)	0.0	0.0	4.0	**4.0**
Electrician	(0.0)	(1.0)	(1.0)	7.0	6.0	10.0	**16.0**

In the sample classifications above, if the Early Retirement Incentive Program were to be offered, this program would not prevent employee layoffs or bumping which is the primary goal.

The classifications in the first sample already had more than enough vacancies to accommodate all position reductions recommended through Tier 1. The result of an Early Retirement Incentive Program would generate additional vacancies that are not necessarily needed at this time and would result in unintended service level impacts to the City organization and remaining staff. For example, there are 8 Librarian positions recommended for elimination, 4 of which are vacant. It is estimated that a maximum of 17 Librarians could elect to retire under the Early Retirement Incentive Program, thereby creating a net of 13 Librarian vacancies that would have immediate service level impacts.

In the next sample, there are not enough current vacancies to accommodate the recommended position reductions. An Early Retirement Incentive Program, however, would not generate the needed vacancies, as there are not enough employees in that classification eligible to participate in this program. This is demonstrated most clearly in the Crime Prevention Specialist classification in which there are 12 positions proposed to be eliminated, all of which are filled. However, there are **no** employees in that classification that are eligible to participate in an Early Retirement Incentive Program since they do not meet the age and service requirements of the program.

The last sample includes classifications in which there are no proposed position reductions. However, by offering an Early Retirement Incentive Program, additional vacancies could be created in these classifications that are not needed at this time resulting in unintended service level impacts. For example, there is one Electrician position proposed for reduction, but there are currently 7 vacant positions so no additional vacancies are needed to avoid layoffs. However, it is estimated that a maximum of 10 Electricians could elect to retire under an Early Retirement Incentive Program resulting in a net of 16 Electrician vacancies. The immediate loss of the services of these employees would impact service delivery.

It should be noted that of the 285 positions proposed for elimination as part of the 2004-2005 Proposed Operating Budget, several employees are eligible for demotion to a lower class, others are eligible to stay within their classification and some employees are subject to layoff or

ANALYSIS (Cont'd.)

redeployment in the proposed budget. At this time it is unknown how many of the employees considered for layoff would be redeployed to other vacant positions in the City. If several of these employees were redeployed to other vacant positions, offering the Option 1 program would potentially generate at least 228 employee separations, up to a maximum of 456 employees leaving the City. This is significantly higher than is needed to reduce or prevent layoffs. In addition, due to continuing employee turnover, additional vacant positions will become available within the next several months. These additional vacancies may reduce the total number of anticipated employee displacements resulting from the proposed budget actions

Significant fiscal and organizational impacts would occur with an Early Retirement Incentive Program. The costs include those related to refilling vacated positions, paying for accumulated vacation and sick leave hours, and significant increased costs to the Federated Retirement System. The City could potentially realize initial operational savings by offering an Early Retirement Program. For example, an employee who is in the top salary step and eligible for the incentive program would create a vacancy that could be filled by an individual who is hired at the beginning of the salary step. However, the early retirement of an employee adds costs to the retirement program through an increase in the City's contribution rate. On average it takes about 3 years for an employee to be promoted to the top salary step of the classification, thereby eliminating any salary savings. Thus, the short-term savings of hiring an employee at a lower salary step would be more than offset by the significant increases in retirement contributions that will be paid over 30 years. The issue of sick leave and vacation payouts could possibly be addressed by staggering the payment to employees over a 2-3 year period, rather than one lump sum at the time of retirement.

Other impacts to the City organization cannot be quantified. There are some disadvantages inherent in any early retirement incentive program: the resulting loss of some of the City's most experienced and knowledgeable employees, the random nature of where the vacancies and service level impacts would unexpectedly occur, the administrative expense of recruiting, selecting and training replacements where necessary, and the increased workload demands on the remaining workforce that is already dealing with position eliminations and vacancies from the current budgetary situation. Although some of the increased vacancies could be filled by existing City employees, it would result in vacancies in the classifications of those employees that left their current positions.

The Alternative Option 2 Program would be offered only to employees in certain classifications where there is a possibility for layoffs. The advantage of offering this plan would be that it would limit the number of potential vacancies to only specific classifications. However, the Alternative Option 2 Program could be categorized as discriminatory because it would be restricted to targeted classifications. Additionally, there is a major concern that employee morale would be affected if this program became available because employees view an Early Retirement Incentive Programs as a benefit and this option would only be provided to restricted eligible classifications. In addition, as demonstrated in Table 2 above, even if an Early Retirement Incentive Program is limited to certain classifications where additional vacancies are needed, in some classifications it would not generate sufficient vacancies to prevent employee displacements. Therefore, the Alternative Option 2 would require further analysis to evaluate

ANALYSIS (Cont'd.)

potential legal implications, determination of the targeted classifications, separation costs, and an actuary study to determine the potential increased cost to the Federated Retirement System.

CONCLUSION

An Early Retirement Incentive Program is not recommended for implementation as a result of the following factors:

- There would be a significant increase in cost that would be incurred by the City if this program were offered. If a minimum of 50% of those eligible for the program participate, the increased cost to the City would be approximately $75,000,000, or a 5.06% of payroll increase in the City's contribution rate (approximately $14M per year). If only 25% of eligible employees participated, the increased cost to the City is approximately $31,700,000 or a 2.66% of payroll increase in the City's contribution to the retirement system (approximately $7.6M per year). This would come at a time of significant financial concern about the costs of the City's retirement plans.

- Vacancies generated from an Early Retirement Incentive Program do not occur in a targeted manner to prevent or reduce layoffs or bumping in specific classifications. The vacancies that would be generated will occur in classifications that already have more than sufficient vacancies to accommodate filled position reductions, resulting in unintended service level impacts to the City and remaining staff.

- The loss of some of the City's most experienced and knowledgeable employees would occur earlier than otherwise expected. This would be at a time when increased workload demands on the remaining workforce are occurring from position eliminations and vacancies from the current budget situation.

- Although difficult to quantify, administrative expenses of recruiting, selecting and training replacements would be realized.

Del D. Borgsdorf
City Manager

Attachments
Attachment A: Early Retirement Incentive Program Option 1 – Number of Employees by Position Classification
Attachment B: Early Retirement Incentive Program Option 2 – Number of Employees by Department

EARLY RETIREMENT INCENTIVE PROGRAM
Option 1 Number of Eligible Employees by Position Classification
(as of April 24, 2004)

	Job Code	**Total Employees**
1	Account Clerk II	2.0
2	Accountant II	3.0
3	Accounting Tech	4.0
4	Administrative Assist C	3.0
5	Administrative Officer	4.0
6	Air Conditioning Mech	1.0
7	Airport Maint Supvr	1.0
8	Airport Operator Supt	1.0
9	Airport Police Officer	4.0
10	Analyst I C	2.0
11	Analyst II C	15.0
12	Assist Police Commun Mgr	1.0
13	Assoc Architect	1.0
14	Assoc Construction Insp	4.0
15	Assoc Engineer	5.0
16	Assoc Engineer (Exempt)	7.0
17	Assoc Engineering Tech	0.0
18	Assoc Transportation Spec	1.0
19	Athletic Stadium Grndskpr	1.0
20	Budget Director U	1.0
21	Building Inspect/Comb Cert FT	8.0
22	Bldg Insp/Comb FT	1.0
23	Building Inspector, Supvr Cert	4.0
24	Building Maint Supt	1.0
25	Building Rehab Insp II	2.0
26	Building Rehab Supvr	1.0
27	Carpenter	1.0
28	Chemist	1.0
29	Chief Dep City Atty (SII)	1.0
30	Child Care/Youth Svsc Coor	1.0
31	City Auditor U	1.0
32	Code Enforcement Admin	1.0
33	Code Enforcement Insp II	9.0
34	Code Enforcement Supvr	2.0
35	Communications Svs Oper	1.0
36	Computer Operator I	1.0
37	Contract Compl Coord U	1.0
38	Crime Data Spec	2.0
39	Cross Connection Spec	1.0
40	Custodian	4.0
41	Data Procg Control Clerk	1.0
42	Deputy Dir Human Res	1.0
43	Deputy Dir U	6.0
44	Development Specialist	3.0
45	Dir Environmental Serv U	1.0

EARLY RETIREMENT INCENTIVE PROGRAM
Option 1 Number of Eligible Employees by Position Classification
(as of April 24, 2004)

	Job Code	Total Employees
46	Dir of Retirement Services	0.0
47	Dir of Transportation U	1.0
48	Division Manager	6.0
49	Division Mgr, Public Safety	1.0
50	Electrical Maint Superint	1.0
51	Electrician	10.0
52	Electrician Supervisor	2.0
53	Engineer II (Exempt)	1.0
54	Engineerg Technician II	2.0
55	Environment Compl Officer	1.0
56	Environment Inspector II	1.0
57	Equipment Maint Supvr	1.0
58	Equipment Mech Asst I	2.0
59	Equipment Operator	3.0
60	Events Coordinator II	1.0
61	Facility Attendant	1.0
62	Facility Repair Worker	2.0
63	Facility Snd & Lt Tech	1.0
64	Family Park Manager	1.0
65	Financial Analyst	1.0
66	Fire Equipment Technician	1.0
67	Fleet Manager	1.0
68	Gardener	7.0
69	Gerontology Specialist	2.0
70	Gerontology Supervisor	3.0
71	Groundskeeper	1.0
72	Groundsworker	3.0
73	Heavy Diesel Equip Op/Mec	1.0
74	Heavy Diesel Equip Supvr	1.0
75	Heavy Equip Oper	2.0
76	Info Systs Analyst	5.0
77	Instrument Control Technician	1.0
78	Instrument Person	1.0
79	Investigator Collector I	1.0
80	Laboratory Tech II	2.0
81	Legal Analyst II	1.0
82	Legal Services Manager	1.0
83	Legislative Resrch Spec U	0.0
84	Legislative Secretary	1.0
85	Librarian I	1.0
86	Librarian II	16.0
87	Librarian II PT	3.0
88	Library Assistant	4.0
89	Library Clerk	2.0
90	Library Clerk PT	1.0

EARLY RETIREMENT INCENTIVE PROGRAM
Option 1 Number of Eligible Employees by Position Classification
(as of April 24, 2004)

	Job Code	Total Employees
91	Maintenance Assistant	1.0
92	Maintenance Superintendent	1.0
93	Maintenance Supervisor	12.0
94	Maintenance Worker I	4.0
95	Maintenance Worker II	7.0
96	Marketing/Public Outrch Mgr	1.0
97	Mechanic	3.0
98	Metal Fabrication Mech	1.0
99	Network Engineer	1.0
100	Office Specialist II	18.0
101	Painter	0.0
102	Painter WPCP	2.0
103	Park Maint Repair Wkr I	2.0
104	Park Maint Repair Wkr II	2.0
105	Parking Control Offcr	3.0
106	Parking/Grnd Trans Admin	1.0
107	Parks Facilities Supvr	0.0
108	Parks Manager	1.0
109	Permit Specialist	1.0
110	Permit Specialist, Sr	1.0
111	Planner II	3.0
112	Plant Attendant	1.0
113	Plant Mechanic	6.0
114	Plant Operator	4.0
115	Plant Shift Supervisor	1.0
116	Police Data Spec II	6.0
117	Police Property Spec I	2.0
118	Police Property Spec II	1.0
119	Prin Account Clerk	2.0
120	Prin Construction Inspect	1.0
121	Prin Engineering Tech	4.0
122	Prin Office Specialist	1.0
123	Prin Water Systems Tech	0.0
124	Program Manager I	1.0
125	Program Manager II	1.0
126	Property Manager II	1.0
127	Real Property Agent II	2.0
128	Recreation Program Spec	3.0
129	Recreation Superintendent	2.0
130	Recreation Supervisor	3.0
131	Redevelopment Program Mgr	1.0
132	Secretary	4.0
133	Secretary to City Mgr U	1.0
134	Section Manager, CAE	1.0
135	Security Services Supvr	1.0

EARLY RETIREMENT INCENTIVE PROGRAM
Option 1 Number of Eligible Employees by Position Classification
(as of April 24, 2004)

	Job Code	Total Employees
136	Senr Account Clerk	6.0
137	Senr Accountant	5.0
138	Senr Air Cond Mechanic	2.0
139	Senr Analyst	6.0
140	Senr Architect/Landscape Arch	2.0
141	Senr Construction Insp	8.0
142	Senr Custodian	2.0
143	Senr Deputy City Atty	1.0
144	Senr Deputy city Atty U	1.0
145	Senr Development Officer	1.0
146	Senr Electrician	4.0
147	Senr Electronic Syst Tech	1.0
148	Senr Engineer	4.0
149	Senr Engineering Tech	5.0
150	Senr Facility Attendant	2.0
151	Senr Geographic Syst Spec	1.0
152	Senr Investigator Collect	1.0
153	Senr Librarian	4.0
154	Senr Library Clerk	2.0
155	Senr Maintenance Worker	3.0
156	Senr Office Specialist	14.0
157	Senr Painter	1.0
158	Senr Planner	3.0
159	Senr Plant Mechanic	1.0
160	Senr Plant Operator	2.0
161	Senr Police Data Spec	2.0
162	Senr Police Property Spec	1.0
163	Senr Program Perf Audit U	1.0
164	Senr Pump Maintenance Wkr	1.0
165	Senr Recr Leader	1.0
166	Senr Security Officer	2.0
167	Senr Supvr, Administration	1.0
168	Senr Systms Apps Prgmr	3.0
169	Senr Workrs Comp Clms Adj	1.0
170	Staff Specialist	7.0
171	Staff Specialist PT	2.0
172	Staff Technician	2.0
173	Street Sweeper Oper	2.0
174	Supervg Accountant	1.0
175	Supervg Applicat Analyst	2.0
176	Supervg Librarian	1.0
177	Supervg Police Data Spec	1.0
178	Supervg Real Prop Agent	1.0
179	Supervg Traffic Sign Tech	1.0
180	Survey Field Suprv	1.0

EARLY RETIREMENT INCENTIVE PROGRAM
Option 1 Number of Eligible Employees by Position Classification
(as of April 24, 2004)

	Job Code	Total Employees
181	Tree Maintenance Leadwrkr	1.0
182	Video Unit Supervisor	1.0
183	Warehouse Supervisor	1.0
184	Water Systems Technician	3.0
185	Not Determined	1.0
	Grand Count	**456.0**

Program Manager I	1.0
Real Property Agent II	1.0
Senr Account Clerk	1.0
Senr Architect/Landscape Arch	2.0
Senr Construction Insp	5.0
Senr Engineer	4.0
Senr Engineering Tech	4.0
Senr Geographic Syst Spec	1.0
Supervg Real Prop Agent	1.0
Supervg Traffic Sign Tech	1.0
Survey Field Suprv	1.0
Total	**49.0**

21   DEPARTMENT OF TRANSPORTATION

Accounting Tech	1.0
Assoc Engineer	1.0
Assoc Transportation Spec	1.0
Dir of Transportation U	1.0
Electrician	4.0
Heavy Equip Oper	1.0
Maintenance Superintendant	1.0

DEPARTMENT OF TRANSPORTATION

Maintenance Supervisor	8.0
Maintenance Worker I	3.0
Maintenance Worker II	7.0
Parking/Grnd Trans Admin	1.0
Prin Engineering Tech	1.0
Secretary	1.0
Senr Construction Insp	1.0
Senr Electrician	1.0
Senr Maintenance Worker	2.0
Senr Office Specialist	3.0
Senr Pump Maintenance Wkr	1.0
Staff Specialist	1.0
Street Sweeper Oper	2.0
Tree Maintenance Leadwrkr	1.0
Total	**43.0**

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Not Determined	1.0
Total	**1.0**
TOTAL	**456.0**